

Message Text

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FM SECSTATE WASHDC

TO USMISSION NATO

C O N F I D E N T I A L STATE 239415

E.O. 11652: GDS

TAGS: MARR, NATO

SUBJECT: NICS PRODUCTION SHARING

REF: (A) STATE 231098, (B) USNATO 5920

1. IN RICHARDSON (MOD CAN) RESPONSE TO SECDEF ON NICS PRODUCTION SHARING (REF A), HE STATES QUOTE OUR REPRESENTATIVES HAVE BEEN ADVOCATING A COMPROMISE OF 35 PERCENT FOR BOTH THE AUTOMATIC TELEGRAPH RELAY AND THE VOICE SWITCHING NETWORKS, WHICH IN TERMS OF ACTUAL PRODUCTION REPRESENTS AN EFFECTIVE 25 PERCENT OF CONTRACT VALUE, SINCE 10 PERCENT IS NORMALLY ALLOCATED FOR TESTING AND INSTALLATION COSTS. UNQUOTE.

2. PROVIDED U.S. INDUSTRY WINS CONTRACT FOR TELEGRAPH AUTOMATIC RELAY EQUIPMENT (TARE), WE BELIEVE SUCCESSFUL
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FIRM CAN LIVE WITH RICHARDSON PROPOSAL TO SUBCONTRACT

QUOTE 25 PERCENT OF CONTRACT VALUE UNQUOTE TO OTHER NATO ALLIES. ON THE OTHER HAND SINCE INITIAL VOICE SWITCHED NETWORK (IVSN) IS OFF-THE-SHELF EQUIPMENT, U.S. FIRMS WITH SWITCH THAT MEETS SPECIFICATIONS MAY HAVE DIFFICULTY SUBCONTRACTING 25 PERCENT OF CONTRACT WITHOUT CAUSING EXCESSIVE PRICE ESCALATION.

3. TO ASSIST IN RESOLVING IMPASSE, YOU ARE AUTHORIZED TO ACCEPT A MANDATORY 25 PERCENT PRODUCTION SHARING CLAUSE IN TARE REQUEST FOR BID (RFB). FOR IVSN, MAXIMUM PRODUCTION SHARE THAT U.S. POTENTIAL CONTRACTORS CAN ACCEPT WITHOUT EXCESSIVE COST ESCALATION IS 20 PERCENT. ACCORDINGLY, YOU SHOULD ATTEMPT TO ACHIEVE AGREEMENT ON 20 PERCENT OR LESS FOR PRODUCTION SHARING CLAUSE IN IVSN RFB. WE REMAIN FLEXIBLE ON THIRD MAJOR NICS PROJECT, SATCOM GROUND TERMINALS. INGERSOLL

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